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CHARTERED ACCOUNTANTS

100 DORCHESTER ROAD, FORT

NATIONAL WY, QUEEN

ANNUAL REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of E. R. Squibb & Sons Ltd. and subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings and surplus and application of funds for the year then ended. Our examination included a general review of the accounting principles and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

E. R. SQUIBB & SONS LTD.
AND SUBSIDIARY COMPANIES

Auditors' Report

Consolidated Financial Statements
November 30, 1971

Peat, Marwick, Mitchell & Co.

CHARTERED ACCOUNTANTS

Montreal, Que.

January 7, 1972.

PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

PEAT, MARWICK, MITCHELL & Co.

CHARTERED ACCOUNTANTS

1155 DORCHESTER BLVD. WEST
MONTREAL 102, QUEBEC



AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of E. R. Squibb & Sons Ltd. and subsidiary companies as at November 30, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as reflected in the revised statements for that year which give effect to the change, with which we concur, of submitting consolidated financial statements to shareholders as explained in note 1 to the financial statements.

Peat, Marwick, Mitchell & Co.

Chartered Accountants.

Montreal, Que.
January 7, 1972.

Consolidated Balance Sheet

\$ 9,635,311	9,283,835
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Director.

Director.

E. R. SQUIBB & SONS LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Income and Retained Earnings

Year ended November 31, 1971
with comparative figures for 1970

	<u>1971</u>	<u>1970</u>
Sales	\$ <u>9,813,288</u>	<u>9,293,762</u>
Income before the undernoted items	\$ 951,071	771,086
Deduct:		
Depreciation	91,676	89,021
Interest on long-term debt	<u>245,930</u>	<u>265,089</u>
	<u>337,606</u>	<u>354,110</u>
Income before income taxes and extraordinary credit	613,465	416,976
Provision for income taxes:		
Current	280,796	254,866
Deferred	<u>28,800</u>	<u>21,740</u>
	<u>309,596</u>	<u>276,606</u>
Net income before extraordinary credit	<u>303,869</u>	<u>140,370</u>
Extraordinary credit - gain on sale of land	<u>490,416</u>	<u>366,715</u>
Net income	794,285	507,085
Retained earnings at beginning of year	<u>2,551,227</u>	<u>2,044,142</u>
Retained earnings at end of year	\$ <u><u>3,345,512</u></u>	<u><u>2,551,227</u></u>

See accompanying notes to financial statements.

E. R. SQUIBB & SONS LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Funds

Year ended November 30, 1971
with comparative figures for 1970

	<u>1971</u>	<u>1970</u>
Funds provided:		
Net income before extraordinary credit	\$ 303,869	140,370
Add charges not requiring cash expenditure:		
Depreciation	91,676	89,021
Loss on disposal of fixed assets	8,427	7,167
Deferred income taxes	<u>28,800</u>	<u>21,740</u>
Funds provided from operations	432,772	258,298
Proceeds from sale of fixed assets	618,882	471,607
Mortgage	<u>685</u>	<u>31,949</u>
Total funds provided	<u>1,052,339</u>	<u>761,854</u>
Funds used:		
Purchase of fixed assets	227,846	411,882
Option to acquire shares	-	75,000
Increase in mortgage receivable	<u>436,425</u>	<u>308,700</u>
Total funds used	<u>664,271</u>	<u>795,582</u>
Increase (decrease) in working capital	<u>\$ 388,068</u>	<u>(33,728)</u>

See accompanying notes to financial statements.

E. R. SQUIBB & SONS LTD.
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

November 30, 1971

- (1) The company adopted the policy in 1971 of preparing consolidated financial statements including all subsidiaries, each of which is wholly owned. Financial statements in respect of the year 1970 have been restated accordingly.
- (2) The balance of the mortgage receivable at November 30, 1970, less an amount of \$11,257 repaid since that date, has been combined with an additional amount of \$440,000 which arose as the result of a sale of land in the year ended November 30, 1971. The total amount of \$737,443 is repayable in four equal annual instalments commencing on September 15, 1973.

Interest from September 15, 1971 at the rate of 5% per annum is to be accrued until September 15, 1973 and will be repaid annually thereafter, commencing on September 15, 1974.

The mortgagor has the right to repay amounts, together with accrued interest thereon, in advance of the instalments referred to above and to reduce his instalment obligations accordingly. Such repayments cannot be predicted. In the period November 30, 1971 to January 7, 1972, principal of \$104,417 was repaid by the mortgagor.

- (3) Property, plant and equipment:

	Depreciation		
	Rate	1971	1970
Land	-	\$ 148,167	269,053
Land improvements	4%	5,027	5,027
Buildings	2%	2,040,183	1,955,333
Machinery and equipment	6½%	698,880	606,503
Office furniture and equipment	10%	340,105	316,103
Automobiles and trucks	25%	<u>15,475</u>	<u>21,815</u>
		<u>\$ 3,247,837</u>	<u>3,173,834</u>

Depreciation is charged in the accounts at the above rates on a straight straight line basis over the life of the individual assets.

- (4) The bank loan is due May 31, 1972. The bank has indicated a willingness to extend the loan beyond that date and the management does not anticipate that any portion of the loan will be required to be repaid before November 30, 1972. For this reason the loan has been shown as non-current.
- (5) The mortgage is repayable in monthly instalments, currently \$388, covering principal, interest and real estate taxes. The amount of principal expected to be repaid in the ensuing twelve months is not significant and accordingly no amount has been reclassified into current liabilities.

E. R. SQUIBB & SONS LTD.
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements, Continued

(6) Directors and officers:

	<u>1971</u>	<u>1970</u>
Remuneration of officers as officers	\$ 42,896	41,306
Number of officers	3	3
Remuneration of directors who are not officers	\$ 47,536	45,408
Total number of directors	5	5
Number of officers who are also directors	2	2

No remuneration was paid by the subsidiary companies.

- (7) Under the terms of a purchase agreement a subsidiary company has undertaken that if within a period of 42 months commencing in September 1970 it does not purchase 7,500,000 units it will reimburse the supplier for a pro-rata share of the supplier's set-up costs of \$22,000.

To November 30, 1971 the subsidiary company has purchased approximately 700,000 units. The unrecorded liability in respect of the above obligation is \$15,000.

- (8) The company has paid income tax assessments totalling \$119,800 which are being appealed. If the appeals are unsuccessful, additional assessments may be received. The amount, which is not provided for, of any such additional assessments would be approximately \$83,500, of which approximately \$20,000 relates to the year ended November 30, 1971.
- (9) Amounts payable or receivable in U.S. funds have been translated into Canadian funds at the rate of U.S. \$.997 equals Cdn. \$1.00.

